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AUSTRALIA

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KEY ECONOMIC INDICATORS FOR AUSTRALIA

Values in millions of U.S. dollars unless otherwise specified. Percentage changes have been calculated in Australian dollars.

Fiscal year July 1 to June 30	**1987/88**	**1988/89**	**1989/90**	**1990/91 Projections**
Domestic Economy				
Population (millions)	16.5	16.8	17.0	17.2
Population Growth (pct)	1.7	1.7	1.2	1.2
GDP in current dollars	216,478	274,530	283,990	310,531
Per Capita GDP, current dols	13,120	16,340	16,705	18,054
GDP, in constant Australia dollars (base year 1985)	219,198	248,998	257,227	259,799
pct change	4.8	4.2	3.3	1.0
Consumer Price Index 6/81=100	175	187	202	216
pct change	7.3	7.3	8.0	7.0
Production and Employment				
Labor Force (1,000s)	7,867	8,086	8,307	8,600
Unemployment Rate (avg pct)	7.8	6.6	6.2	7.3
Industrial Production Index 6/85=100	105	111	114	115
Balance of Payments				
Exports (FOB)	29,607	35,006	36,371	39,000
Imports (FOB)	29,494	38,246	39,283	38,800
Trade Balance	113	-3,241	-2,911	200
Current Account Balance	-8,092	-14,442	-15,970	-14,040
Foreign Direct Investment (new)	3,347	6,798	6,934(est)	7,020
Foreign Debt (Net end AFY)	67,762	89,381	95,936	110,530
Debt-Service Paid	6,265	8,526	9,707(est)	11,700
Debt-Service Owed	6,265	8,526	9,707(est)	11,700
Debt-Service as a pct of Merchandise Exports	21.2	24.4	26.6(est)	29.5
Foreign Exchange Reserves	14,739	16,597	16,849	17,940
Average Exchange Rate (US$ =)	1,369	1,230	1,298	1,282
Foreign Investment				
Total (Cumulative - $Bil)	142.9	186.5	196.5(est)	210.6
U.S. (Cumulative - $Bil)	29.4	38.1	39.3(est)	39.7
U.S. Share (pct)	20.6	20.4	20.0(est)	18.8

U.S. - Australia Trade (CY)	**1988**	**1989**	**1990 Estimates**	**1991 Projections**
U.S. Exports to (FAS)	6,973	8,347	9,200	9,500
U.S. Imports from (CV)	3,541	3,898	4,000	4,300
Trade Balance	3,432	4,449	5,200	5,200
U.S. Share of Aust. Exports	10.7	10.7	10.4	11.0
U.S. Share of Aust. Imports	21.4	22.4	24.1	- 24.5
U.S. Bilateral Aid	NONE PROVIDED			

Principal U.S, Exports (1989): Aircraft, Computers and Parts, Vehicle Parts and Accessories, Civil Engineering Plant and Equipment

Principal U.S. Imports (1989): Meat, Ores, Wool, Oil, Iron and Steel Products

Sources: Australian Bureau of Statistics, U.S, Department of Commerce, Australian Government Budget Statements 1990/91, Embassy forecasts

AUSTRALIA'S ECONOMY IN BRIEF*

The Australian economy combines export-oriented agricultural and minerals sectors with a diversified manufacturing/service sector dedicated to domestic requirements. Gross domestic product (GDP) grew 3.3 percent in real terms during the fiscal year that ended June 30, 1990, to reach $198 billion. Primary agricultural commodities account for about 26 percent and mineral commodities for about 41 percent of total goods and services exports.

Because of its small domestic market, Australia has long protected its manufacturing sector through tariffs and other measures. Since 1983, however, the Labor Government under Prime Minister Bob Hawke has adopted pragmatic policies to foster greater openness and competitiveness in the economy. Industry protection is being steadily dismantled and, in September 1990, the government took significant steps to privatize state-owned enterprises.

Responding to an overheating economy in 1988, the government tightened monetary policy to curb consumption and imports. A policy-induced slowdown became apparent in the third quarter of 1989 and sharpened thereafter. Although federal elections in March 1990 were held against the backdrop of an economy slowing visibly under these restraints, the Labor Party was returned for a fourth consecutive three-year term.

The economy has weakened steadily in 1990. After years of impressive gains, employment growth has slowed. Unemployment is increasing. Manufacturing output is stagnant, and surveys reveal low levels of investor and consumer confidence. The rural sector is in recession. Wage growth and inflation are running in excess of 7 percent, while net external debt remains high at $96 billion. Moreover, the oil price rise of September-October is raising costs throughout the economy.

The challenge to the government is to avoid recession while returning the economy to sustainable growth rates. A successful "soft-landing" will depend not only on the measured relaxation of policy restraints but also on export-led growth and thus on stable external markets and tourism.

Despite a recent easing of monetary policy and an improvement in the current account, the economic forecast remains clouded. Business and consumer confidence alike have been hit by a run of significant failures in the corporate and financial sectors, exacerbated since August by the effect of higher oil prices. Australia is now deemed by many to be facing a recession that will endure into the second quarter of 1991.

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*This report was prepared in October 1990.

PART A - CURRENT ECONOMIC SITUATION AND TRENDS

Aggregate Demand and Output: Australia's economy has been slowing for 18 months. Gross domestic product (GDP), which increased by a real seasonally adjusted rate of 3.6 percent in the six months to June 1989, grew by only 2.1 percent in the March 1990 quarter and declined by 0.9 percent in the June quarter. Gross national expenditure (GNE), which increased by 5 percent in real seasonally adjusted terms during the six months to June 1989, grew only 1.3 percent in the March quarter 1990 and fell 2.7 percent in the June quarter.

Further contraction of GDP in the September 1990 quarter would confirm a technical recession, which many Australian analysts believe will persist through the first half of 1991. Weakness in key commodity prices would prolong the downturn. Business investment and GNE are forecast to remain weak.

Despite the challenge of managing an incipient recession, the Hawke government has made micro-economic reform a central theme of its fourth term. This focus continues a line of policy with which the Labor Party has identified itself for seven years and in which the deregulation of the banking sector in 1985 and the tariff reform of 1988 are landmarks. Against a backdrop of recession, however, the government is apt to encounter greater than normal resistance to micro-economic reforms, particularly in the realm of industrial relations.

The government in September 1990 won political endorsement for privatization plans affecting four key state-owned enterprises. Partial privatization will be allowed for the Commonwealth Bank and for Qantas Airlines. Complete privatization will be permitted for the satellite company AUSSAT and for the domestic air carrier Australian Airlines. Although these decisions will require 12-18 months to be implemented, they will ensure greater competition in the telecommunications and aviation sectors.

Because of the precedent involved, the privatization initiative ranks as the government's most important step this year to promote long-term economic output.

Inflation, Wages, and Money Supply: Inflation averaged 8.2 percent during the first half of 1990, one of the higher rates among industrialized countries. In June 1990, inflation as measured by the consumer price index (CPI) was running at an annualized 7.7 percent. The third quarter inflation rate is estimated to have been lower, but given sharp rises in gasoline prices, there will be a spike in the fourth quarter rates. Even if inflation eases in the

first half of 1991, the official forecast of 6.5 percent in the August 1990 budget has almost certainly been overtaken by events. The embassy's CPI forecast for the year through June 1991 is 7 percent.

Formal links between wages and the CPI contradict stated government policy. Nonetheless, Australian wages are established centrally and the terms of the 1990 national wage agreement approach de facto wage indexation. Average weekly earnings for all employees increased by 6.3 percent in 1989. The current wages agreement mandates a wage increase of 7 percent in 1990, subject to adjustment upward if the CPI overshoots an agreed target. Although the wage forecast is at or below the anticipated inflation rate, it is almost twice the wage increase prevalent in key industrialized trading partners.

For the year ended July 1990, the money supply (M3) increased by 11 percent. M1 rose 5 percent.

Interest Rates: As part of the effort to "soft-land" a rapidly slowing economy, the Reserve Bank eased the official interest rate five times between February and October 1990. The prime rate, which peaked at 20.5 percent in the fourth quarter of 1989, is now averaging 16.38 percent. The 26-week treasury-bill rate declined from 17.75 percent in October 1989 to 13.13 percent in mid-October 1990. Further reductions in short-term interest rates are expected as domestic spending and imports continue to soften.

Interest rates strongly affect the exchange rate. In mid-October, a 1 percent reduction in the Reserve Bank's benchmark cash rate drove the currency down more than 4 U.S. cents as the market reacted to comparative real rates of return available in Europe, Japan, and the United States.

Employment: Full-time employment peaked at 6.26 million persons in July 1990 and is now declining. Latest labor force data show the unemployment rate to have risen from 6.9 percent in July to 7.4 percent in September 1990. Employment growth, which has been one of the proudest accomplishments of the Hawke Labor government, flattened out in March 1990. It is expected to remain low throughout the 1990-91 fiscal year. The forecast average unemployment rate for the year is 7.3 percent.

Foreign Trade: Japan, the United States, South Korea, New Zealand, Singapore, the United Kingdom, Taiwan and Hong Kong are the eight leading markets for Australian exports. Those exports in order of importance are coal, wool, gold, wheat, alumina, aluminum, iron ore, beef and veal, sugar, and refined petroleum products. Australia's main imports are automobiles and trucks, data processing equipment, aircraft, petroleum and petroleum products, and capital equipment and components for manufacture and consumer goods. The United States and Japan each provide approximately 22 percent of total

imports; Europe provides about 27 percent of imports, of which the European Community (EC) sells 22 percent. Within the EC, the United Kingdom, the Federal Republic of Germany, Italy, and France are the leading suppliers to Australia.

Exports grew 12.3 percent to $36.4 billion during the fiscal year, while imports slowed in response to declining gross national expenditure. Imports for June-August 1990 averaged $3.31 billion per month, of which $768.8 million on average was from U.S. sources. Despite the government's still relatively tight monetary policy, import demand will continue to reflect wage increases and corporate capital renovation programs. Computer equipment and aircraft from the United States have especially good prospects.

Believing that a small, export-dependent nation can best prosper in a free-trade environment, the Australian Government has taken an active role in the Uruguay Round Multilateral Trade Negotiations. It has been an effective leader of the Cairns Group of non-subsidizing agricultural nations. Australia is a free trade partner of New Zealand through the Closer Economic Relationship (CER) Agreement. In 1989, it joined the Coordinating Committee on Multilateral Export Controls (COCOM). Australia is a leader in promoting regional economic dialogue through the Asia-Pacific Economic Cooperation (APEC) forum.

Despite membership in international trade organizations and its own deregulation policies, Australia maintains a number of barriers to free trade. On a trade-weighted basis, industrial tariffs average slightly under 8 percent, compared with 5 percent for the United States and 5.6 percent for the European Community. A nonsignatory of the GATT Standards Code, Australia maintains a lengthy list of special standards ranging from design rules for parts and equipment to divergent state packaging regulations. Australia is also a nonsignatory of the GATT Government Procurement Code. The Federal Government in 1989 abandoned the 20-percent procurement preference for Australia/New Zealand vendors, but preferences are still maintained by the states and the Northern Territory. Australia also requires offsets on imported product sales to the government that exceed A$2.5 million (US$1.8 million) in any one calendar year. Other trade-distorting measures include subsidies and bounties for certain exported products, domestic content requirements for advertising and television, and limits on foreign investments in mining, media, aviation, certain forms of real estate, and certain business takeovers.

Balance of Payments: Australia's balance-of-payments deficit in the 1989-90 fiscal year reached a record $16 billion. Imports have slowed, allowing the government to project a current account deficit of $14.4 billion for FY 1990-91.

Of concern, however, is the world slump in rural and mineral commodity prices. The reduction in total farm export earnings already in view will be worsened if prices for iron ore, coking coal, aluminum, and steel should falter -- a scenario that is considered possible if recession strikes key trading partners. Despite some success in diversifying the export manufacturing base, Australia remains a hostage, through world commodity prices, to global supply and demand conditions.

External Debt: Chronic balance-of-payments deficits have produced a steady accumulation of foreign debt. By most accepted indices, Australia ranks today among the world's most indebted nations; gross external debt stood at $121 billion in June 1990, 42.6 percent of GDP. Net external debt was almost $96 billion. On the other hand, Australia's foreign assets are significant. Private sector Australian investment overseas amounts to $39.5 billion.

Debt repayment is a priority objective of the Federal Government. In the August 1990 budget, Treasurer Keating announced that the government would repay $1 billion of its foreign-held debt during FY 1990-91. He has since declared the government's intention to use part of the proceeds of privatization to reduce foreign debt in 1991 and beyond.

Exchange Rates: Since the government decided in the mid-1980s to float the currency and liberalize the Australian financial market, the Australian dollar has grown to become one of the seven most heavily traded currencies on international foreign exchange markets. Its value today is influenced mainly by trends in global commodity prices and by the real interest rate differential between domestic and U.S.-European lending rates in 1990, the Australian dollar has traded between a low of 75 U.S. cents (April) and a high of 83.75 U.S. cents (October).

SECTORAL PROJECTIONS

Agriculture: Australia is among the world's leading exporters of wheat, sugar and beef. Agricultural commodities during the June quarter of 1990 accounted for about 25.5 percent of total goods and services exports. The total volume of agricultural exports was slightly down in FY 1989-90, while lower prices decreased the value of exports by 4 percent to $11.2 billion.

Current estimates for net cash farm income predict a drop of 32 percent from the 1989-90 level to the lowest level since 1986-87. Net value of farm production is expected to drop even further, by 57 percent. Not only is the rural economy in a depressed state, but an early recovery cannot be expected.

Wool has been a harbinger of the rural crisis. Prompted by a calamitous drop-off in foreign buyer interest, the Australian Wool Corporation (AWC) elected to defend wool prices by buying-in the unsold clip at auction. Between July 1989 and June 1990, the AWC stockpile grew from 200,000 to 3.1 million bales. In May 1990, the government slashed the benchmark price to 546 U.S. cents (700 Australian cents) per kilo in an attempt to restore a market-clearing price.

Sales, however, did not recover. With the AWC continuing to buy-in over 75 percent of the wool at auction, its stockpile has reached 3.5 million bales and is still growing. The corporation is deeply in debt. Sheep numbers exceed 180 million head, and forced liquidation of flocks has begun.

Other sections of the rural economy are also performing poorly. In the face of excellent wheat crops around the world and decreased export demand, returns to Australian wheat producers this season are expected to be below production costs. Other broad-acre crops are also forecast to return less than last year.

Although the red meat industry is apparently holding its own, demand for Australian-fed beef in Japan is expected to decline somewhat in the coming months, and this reduced demand may bring problems to the sector. Exports to the United States, Australia's most stable beef market, are forecast to continue at current levels.

Minerals: Australia is the world's leading exporter of coal and alumina/aluminum, and a significant supplier of iron ore, gold, uranium, base metals and mineral sands. During the second quarter of 1990, Australia's mineral exports of $4.9 billion accounted for 43 percent of all goods and services exports. Taken as a whole, mineral and energy export revenues in the June quarter of 1990 were 12 percent higher than in the same quarter a year earlier.

Black Coal: Production of black coal at 49.9 million metric tons (mt) in the June quarter of 1990 was almost 8 million mt higher than in the comparable 1989 period. Japan is the principal customer, although South Korea and Taiwan are important as well. Australian exporters expect to benefit from rising oil prices.

Aluminum: Although aluminum export revenues are down, the industry remains profitable and is expanding both refinery and smelter capacity. Alcoa will proceed with the $240 million expansion of its Wagerup Alumina Refinery. Virtually all of the smelting plants have plans to raise capacity.

Iron Ore: Production of iron ore has risen only marginally as companies look for means of boosting volume without embarking on large capital investments. Price negotiations with Japanese buyers

are under way. Australian mining companies are seeking a 12-percent price increase for 1991, a result which would restore the nominal U.S. dollar price of iron ore to the record level of 1982. Analysts, however, expect a negotiated outcome of less than 10 percent.

Gold: Production of gold continues to rise dramatically. Although the gold price fell by 9 percent from June 1989 to June 1990, production increased by 18 percent and gold export revenues by 25 percent over the year.

Petroleum: Contrary to forecasts, the net balance of trade in petroleum and related products showed a deficit of only $19 million for the June 1990 quarter, versus a $395 million deficit in the June quarter a year earlier. For the first six months of 1990, production from the Northwest Shelf and new fields in the Timor Sea substantially offset declining output from the Bass Strait fields. A Federal Government change in the royalties applied to Bass Strait production will encourage more exploration in offshore areas. LNG exports from the Woodside Project are now significant; Japanese customers are reported to be pursuing deliveries in excess of the contracted schedule.

Manufacturing: The index of manufacturing production peaked in the March quarter of 1990, then sank by 5.7 percent in the June quarter (quarter-over-quarter basis).

Subsectors showing strength over the year through June 1990 were transport equipment, textiles, and paper printing, and publishing. Weak performances were recorded in clothing and footwear, nonmetallic mineral products, and miscellaneous manufacturing.

Automobile inventories and other partial indicators point to a broadening slowdown in manufacturing activity in the second half of the year. Recent surveys by the Confederation of Australian Industry reveal weaker order books and projected declines in manufacturing output and rates of investment. The general picture is one of consolidation in the face of flat or negative sales trends.

The Civil Aviation Sector: Major changes to domestic civil aviation occurred when the duopoly arrangement that has been in existence for many years terminated on November 1, 1990. New airline companies have joined the market to compete with the established leaders, Ansett Australia and Australian Airlines. New routes and services and radical cuts in fares became available in the fourth quarter.

The quite separate decision by the government to permit the privatization of 100 percent of the government-owned domestic carrier, Australian Airlines, and up to 49 percent of international carrier Qantas fundamentally alters the aviation scene in Australia. Government officials have stated that "strategic

holdings" by major foreign airlines will be solicited in both carriers as a means of reinforcing their networks. The Labor Party resolution of September 24 places a cap of 35 percent on foreign ownership of Qantas, but no explicit cap was set for Australian Airlines.

Environment: Australia is experiencing a growing wave of public concern about the environment, with forestry and mining especially prone to controversy. Environmental issues played an important role in the March 1990 federal election as both Labor and the Opposition courted the "green" vote. Government policy must steer a course between adherence to its announcement that environmental factors will be a component of all future development planning and the need to deregulate exploitation of resources with high export potential. Major commercial opportunities will open during the 1990s as environmental concerns are translated into policy and become the basis for mandatory new capital investment.

PART B - IMPLICATIONS FOR THE UNITED STATES

United States-Australia Trade: Australia is the United States' ninth largest export market. In 1989, the United States enjoyed a positive trade balance with Australia of $4.4 billion, $1 billion higher than in 1988. U.S. merchandise exports to Australia rose 19.7 percent to $8.3 billion. U.S. imports from Australia totaled $3.9 billion in 1989, 10.1 percent higher than in 1988.

Investment: The stock of U.S. direct investment in Australia in December 1989 was $35.3 billion, about $3.7 billion higher than in December 1988. U.S. direct investment in Australia is largely concentrated in the petroleum, chemical, and manufacturing industries. Portfolio investment is large and increasing.

Australia welcomes foreign investment. Liberal investment regulations and a stable government make the country attractive to investors. The currency is freely traded internationally, and the financial services sector is competitive and outward-looking.

As noted earlier, some categories of foreign investment are subject to screening by the Foreign Investment Review Board (FIRB). These generally involve foreign acquisitions of Australian-owned businesses, investments worth more than A$10 million (US$7.8 million), purchases of urban real estate, and equity investment in restricted sectors. Overall, however, official practice has been liberalized to the point where the FIRB may be regarded as an impediment to foreign investment only in cases large enough to raise national interest concerns.

Australia's offsets policy requires foreign companies selling products valued at more than A$2.5 million (US$2 million) annually to government entities to meet offset obligations equal to 30 percent of the value of the sale. The requirement can be met by technology transfer, training, research and development, purchases of Australian-made products and services for export, overseas marketing, joint venture arrangements, venture capital investment, or credit for administrative expenses incurred by overseas suppliers or local companies directly associated with the discharge of offset obligations. Foreign companies that enter agreements under the Partnership for Development program (a type of joint venture) are relieved of offset requirements for up to seven years.

Best Prospects: The best prospects, based on market trends for U.S. exports and emerging new opportunities, are as follows:

Aviation Equipment: U.S. exports average $1 billion per year. With deregulation, we anticipate increased demand for aircraft leasing, ground support equipment, parts and accessories.

Computers and Peripherals: The United States is a market leader in this field. Federal and state government, industry, and home applications continue to be updated and expanded. Other markets for data automation include reservation systems, hotels, banking, and securities dealing, with pension management an especially dynamic sector. U.S. exports grew by 40 percent from $485 million in 1988 to $664 million in 1989.

Telecommunications Equipment: In this strong growth market for U.S. exporters, we anticipate a new surge in demand as private competition emerges alongside the government-owned network. Market growth in this sector is averaging 50 percent. U.S. exports were $158 million in 1989 versus $100 million in 1988.

Mining and Oil and Gas Equipment: U.S. exports of manufactured goods for civil engineering, electrical machinery, special transportation vehicles, tools, handling equipment, pumps, compressors, ships and floating structures totaled $607 million in 1989, 50 percent higher than 1988. As petroleum exploration expands in the next five years, opportunities will appear for offshore drilling and oil service equipment.

Automotive Parts and Accessories: This is a $287 million market for U.S. exporters, up from $205 million in 1988. Japan has the largest market share at 45 percent, but the United States is well placed with 26 percent. Accessories make up one of the fastest growing segments in this important market.

Franchising: Some 211 franchises are listed as operating in Australia, of which only 15 are from the United States. However, American franchises are some of the largest, including: McDonalds, Kentucky Fried Chicken, Pizza Hut, Ramada and Holiday Inns, Avis, Hertz, Dollar, and Budget Rent-a-Cars. Data on licensing fees generated are not available. The market is estimated to be growing at about 20 percent per year.

Emerging Opportunities: As noted earlier, major markets are emerging in environmental protection and alternative energy and energy conservation. Specific market data are lacking, but the Foreign Commercial Service in Australia is planning an in-depth market research project on this sector, as well as each of the sectors summarized above. Studies are also planned on book sales, power hand tools, textile home furnishings, hotel and restaurant equipment, sporting goods, pumps, and musical instruments. These market research reports will be available from the Senior Commercial Officer at the following address:

U.S. Consulate General
Electricity House, 36th Floor
Corner Park and Elizabeth Streets
SYDNEY, N.S.W. 2000

TEL: 61-2-26192001
FAX: 61-2-2618148

Foreign Commercial Service branch offices are located in the American Consulates in Melbourne, Brisbane and Perth.

U.S. exporters and potential exporters are also encouraged to contact their local Department of Commerce district office to obtain additional information on doing business in Australia and participating in local trade events. Of potential interest to the United States are major projects under consideration in Australia such as the Cape York Spaceport project, water treatment, and the introduction of pay TV. Local district offices will be receiving updated reports on these projects as they progress.

* U.S. Government Printing Office : 1991 - 282-906/20031